

BASS, BERRY & SIMS PLC

A PROFESSIONAL LIMITED LIABILITY COMPANY
ATTORNEYS AT LAW

T. G. PAPPAS
TEL: (615) 742-6242
FAX: (615) 742-6293

2700 FIRST AMERICAN CENTER
NASHVILLE, TENNESSEE 37238-2700
(615) 742-6200

KNOXVILLE OFFICE:
1700 RIVERVIEW TOWER
KNOXVILLE, TN 37901-1509
(423) 521-6200

December 2, 1997

HAND DELIVERED

Mr. K. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

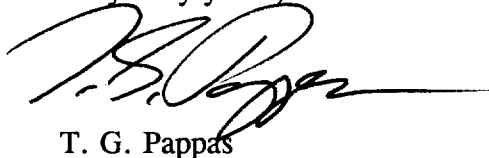
Re: Universal Service Generic Contested Case - Docket No. 97-00888

Dear Mr. Waddell:

On behalf of our client the Coalition of Small LECs and Cooperatives we are enclosing an original and thirteen copies of the rebuttal testimony of Steven E. Watkins.

Thanking you for your attention in this matter and with kindest regards, I remain

Very truly yours,



T. G. Pappas

TGP/bfs:567989

cc: Dr. Austin Lyons
Dennis McNamee, Esq.
Counsel of Record
Thomas J. Moorman, Esq.
Steven E. Watkins, Esq.
Coalition Members

BEFORE THE
TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE:

UNIVERSAL SERVICE; GENERIC
CONTESTED CASE

DOCKET NO. 97-00888Y

Rebuttal Testimony of

Steven E. Watkins

on behalf of

Ardmore Telephone Company
Ben Lomand Rural Telephone Cooperative, Inc.
Bledsoe Telephone Cooperative, Inc.
Century Telephone of Adamsville, Inc.
Century Telephone of Claiborne, Inc.
Century Telephone of Ooltewah-Collegedale, Inc.
Concord Telephone Exchange, Inc.
Crockett Telephone Company, Inc.
DeKalb Telephone Cooperative, Inc.
Highland Telephone Cooperative, Inc.
Humphreys County Telephone Company
Loretto Telephone Company, Inc.
Millington Telephone Company
North Central Telephone Cooperative, Inc.
Peoples Telephone Company, Inc.
Tellico Telephone Company, Inc.
Tennessee Telephone Company
Twin Lakes Telephone Cooperative Corporation
United Telephone Company
West Kentucky Rural Telephone Cooperative, Inc.
West Tennessee Telephone Company, Inc.
Yorkville Telephone Cooperative

"The Coalition of Small LECs and Cooperatives"

December 2, 1997

1 Q: Please state your name and business address.

2
3 A: My name is Steven Watkins. My business address is 2120 L
4 Street, N.W., Suite 520, Washington, D.C., 20037.

5
6 Q: Are you the same Steven Watkins that filed initial testimony
7 in this proceeding on November 12, 1997?

8
9 A: Yes.

10
11 Q: On whose behalf are you providing this rebuttal testimony?

12
13 A: I am providing this rebuttal testimony on behalf of the member
14 companies of "The Coalition of Small LECs and Cooperatives"
15 ("Coalition"). The members of the Coalition are Ardmore
16 Telephone Company, Ben Lomand Rural Telephone Cooperative,
17 Inc., Bledsoe Telephone Cooperative, Inc., Century Telephone
18 of Adamsville, Inc., Century Telephone of Claiborne, Inc.,
19 Century Telephone of Ooltewah-Collegedale, Inc., Concord
20 Telephone Exchange, Inc., Crockett Telephone Company, Inc.,
21 Dekalb Telephone Cooperative, Inc., Highland Telephone
22 Cooperative, Inc., Humphreys County Telephone Company, Loretto
23 Telephone Company, Inc., Millington Telephone Company, North
24 Central Telephone Cooperative, Inc., Peoples Telephone
25 Company, Inc., Tellico Telephone Company, Inc., Tennessee
26 Telephone Company, Twin Lakes Telephone Cooperative
27 Corporation, United Telephone Company, West Kentucky Rural
28 Telephone Cooperative, Inc., West Tennessee Telephone Company,
29 Inc., and Yorkville Telephone Cooperative. Each member of the
30 Coalition is a "rural telephone company" under the
31 Telecommunications Act of 1996 ("1996 Act"). Each member also
32 is an incumbent Local Exchange Company ("LEC") operating
33 within the State of Tennessee.

34
35 Q: Have you reviewed the testimony of the other parties in this
36 proceeding?

37
38 A: Yes.

39
40 Q: Are you aware that some parties in this proceeding have
41 presented testimony suggesting that universal service fund
42 disbursements be limited to the primary residential lines, to
43 residential customers, to single-line businesses, or to low-
44 income users?

45
46 A: Yes.

1 Q: Do you agree with these parties' positions?

2
3 A: No. The cost of providing universal service does not end with
4 one class of customers, or with a minimum amount of service to
5 a customer, to the exclusion of other classes of customers or
6 higher quantities of services to individual users. Rather,
7 LECs construct their networks to provide services to all users
8 in their service area. Therefore, the cost of the network and
9 the need for universal service cost recovery in high cost
10 areas cannot arbitrarily be divided between customers
11 qualifying for universal service and those customers that do
12 not. The LECs have incurred network costs for all customers,
13 regardless of their classification as business, residential,
14 low-volume or high-volume, or lower or higher income.
15 Accordingly, the Coalition submits that there is no need to
16 separate these costs and segregate different customers.
17 Moreover, denying universal service funding to certain of the
18 LECs' customers or lines may be counter-productive to
19 universal service. In any event, universal service cost
20 recovery under the current federal plan for the Coalition
21 members, which are all rural telephone companies, is for the
22 entire cost of the local distribution network.

23
24 Q: How could denying universal service funding to certain of the
25 LEC's customers or lines be counter-productive to universal
26 service?

27
28 A: If universal service funding were denied for second
29 residential or for multi-line business customers, rates would
30 be much higher in high cost areas for the customers and
31 services not supported by universal service cost recovery
32 provisions. Higher rates would have the counter-productive
33 effect of lowering demand among the classes of customers for
34 which support is denied. This, in turn, would lead to higher
35 per-customer network costs and increase the high-cost recovery
36 challenges that rural companies already experience. In
37 addition, higher rates to multi-line businesses may very well
38 lead to less multi-line customers in the LEC's service area,
39 thereby discouraging economic development in rural areas by
40 business.

41
42 Q: Are there any other factors that the Tennessee Regulatory
43 Authority should be aware of in ensuring that universal
44 service funding is available for the entire LEC network?

45
46 A: Yes. First, the 1996 Act not only requires that rates be
47 affordable, but that rates also be comparable and reasonable.
48 If universal service cost recovery is denied second
49 residential lines or multi-line businesses, the resulting
50 costs that would have been subject to universal service

1 funding would be recovered from the rates charged all
2 customers. As a result of this additional cost recovery
3 burden, rates in high cost areas will neither be comparable to
4 rates charged in lower cost areas nor reasonable. Finally,
5 the expense associated with programs that require telephone
6 companies to segregate customers based on criteria that are
7 difficult to administer and enforce makes the proposal to
8 exclude universal service funding to some lines and customers
9 even more onerous and potentially counterproductive.

10
11 Q: Does this end your rebuttal testimony?

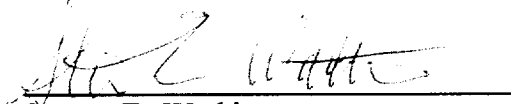
12
13 A: Yes.

District of Columbia, ss:

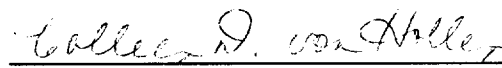
BEFORE ME, the undersigned authority, a Notary Public, duly commissioned and qualified in the District of Columbia, personally came and appeared Steven E. Watkins, who, being by me first duly sworn deposed and said that;

He is appearing as a witness on behalf of The Coalition of Small LEC's and Cooperatives before the Tennessee Regulatory Authority and if present before the Authority and duly sworn, his rebuttal testimony would be as set forth in the annexed pre-filed testimony.

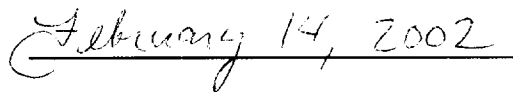
This 1st day of December, 1997.


Steven E. Watkins

Sworn to and subscribed before me this 1st day of December, 1997.


Notary Public, D.C.

My Commission Expires:



CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing document has been mailed,
U. S. mail, postage prepaid, to the following persons, this the 2nd day of December, 1997.

Henry Walker
Attorney for NextLink
P. O. Box 198062
Nashville, TN 37219

Guilford Thornton
Attorney for BellSouth Cellular
424 Church Street
28th Floor
Nashville, TN 37219-2386

Mark Pasko
Swidler & Berlin
Atty. for AVR d/b/a Hyperion of
TN
3000 K Street NW, Suite 300
Washington, DC 20007-5116

Dana Shaffer
NextLink Tennessee
105 Molloy Street
Suite 300
Nashville, TN 37201

Chuck Welch
Attorney for Time Warner
Nashville City Center
511 Union Street, Suite 2400
Nashville, TN 37219

William C. Carriger
Attorney for Electric Power Bd. of
Chattanooga
400 Krystal Building
One Union Square
Chattanooga, TN 37402

James B. Wright
United Telephone-SE
14111 Capital Blvd.
Wake Forest, NC 27587-5900

Pam Melton
Attorney for LCI
8180 Greensboro Drive, Ste. 800
McLean, VA 22102

Val Sanford
Attorney for AT&T
P. O. Box 198888
Nashville, TN 37219-8888

Guy W. Hicks
BellSouth Telecommunications
333 Commerce Street
Suite 2101
Nashville, TN 37201-3300

D. Billye Sanders
Attorney for TCG MidSouth
P. O. Box 198966
Nashville, TN 37219-8966

L. Vincent Williams
Consumer Advocate
Cordell Hull Bldg.
Ground Floor
Nashville, TN 37243

H. LaDon Baltimore
Attorney for WorldCom, Ste. 320
211 Seventh Avenue, N.
Nashville, TN 37219-1823

Richard Tettlebaum
Citizens Telecommunications Co.
Suite 500
1400 16th Street NW
Washington, DC 20036

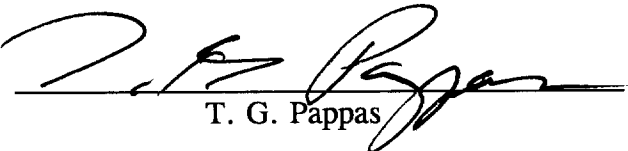
James Lamoureux
AT&T
Room 4068
1200 Peachtree Street, NE
Atlanta, GA 30309

William Ellenburg
and Bennett Ross
BellSouth
675 West Peachtree Street, NE
Suite 4300
Atlanta, GA 30375

Jon Hastings
Attorney for MCI
P. O. Box 198062
414 Union Street, Ste. 1600
Nashville, TN 37219

Dan Elrod
Ken Bryant
Attorneys for GTE Mobilnet
Nashville City Center, 25th Floor
511 Union Street
Nashville, TN 37219

Kim Kirk
Assistant General Counsel
Tennessee Department of
Environment
and Conservation
312 8th Avenue North
Nashville, TN 37243-1548


T. G. Pappas